Thursday, October 4, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

Comprehensive daily market research and analytics, with insightful commentary and charts

Scary Times as Traditional Market Forces Return

Wake-up call

Into Thursday, we've seen a very clear run in the US Dollar that's also been accompanied by a downturn in the US equity market. The price action is significant. In today's update we highlight two reasons why the price action is significant and what this could mean for the US Dollar going forward.

Technical highlights

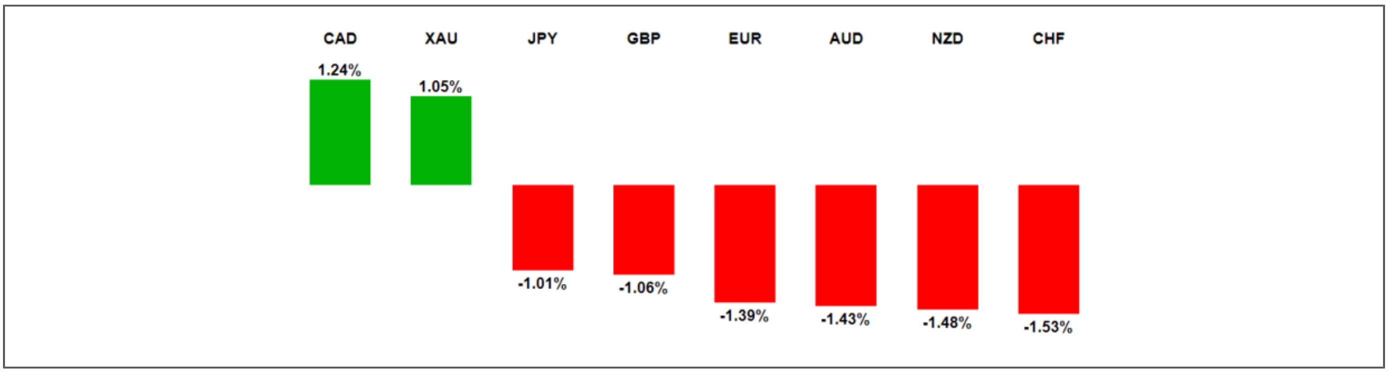
Daily Video

- EURUSD Critical inflection point
- GBPUSD Looking for next higher low
- USDJPY Bearish while below 114.75
- EURCHF Well supported into major zone
- AUDUSD Fresh multi-month lows
- USDCAD Lots of chop but no clear direction
- NZDUSD Lowest levels since January 2016
- US SPX 500 Record run looking exhausted
- GOLD (spot) Signs of major basing pattern
- BTCUSD Range contraction warns of break
- ETHUSD Hovers just off major support

Fundamental highlights

- EURUSD Euro turns away from Italy woes
- GBPUSD Brexit risk takes backseat to US yields
- USDJPY Yen could soon recover on safety bids
- EURCHF SNB staring at tough situation
- AUDUSD Aussie falls victim to macro flows
- USDCAD Loonie pressured despite upbeat news
- NZDUSD Soft data no help to ailing Kiwi rate
- US SPX 500 Monetary policy shift, trade tension
- GOLD (spot) Plenty of institutional demand
- BTCUSD Bitcoin outlook brighter further out
- ETHUSD Sentiment downturn a worry for ETH

Performance v. US dollar since weekly open

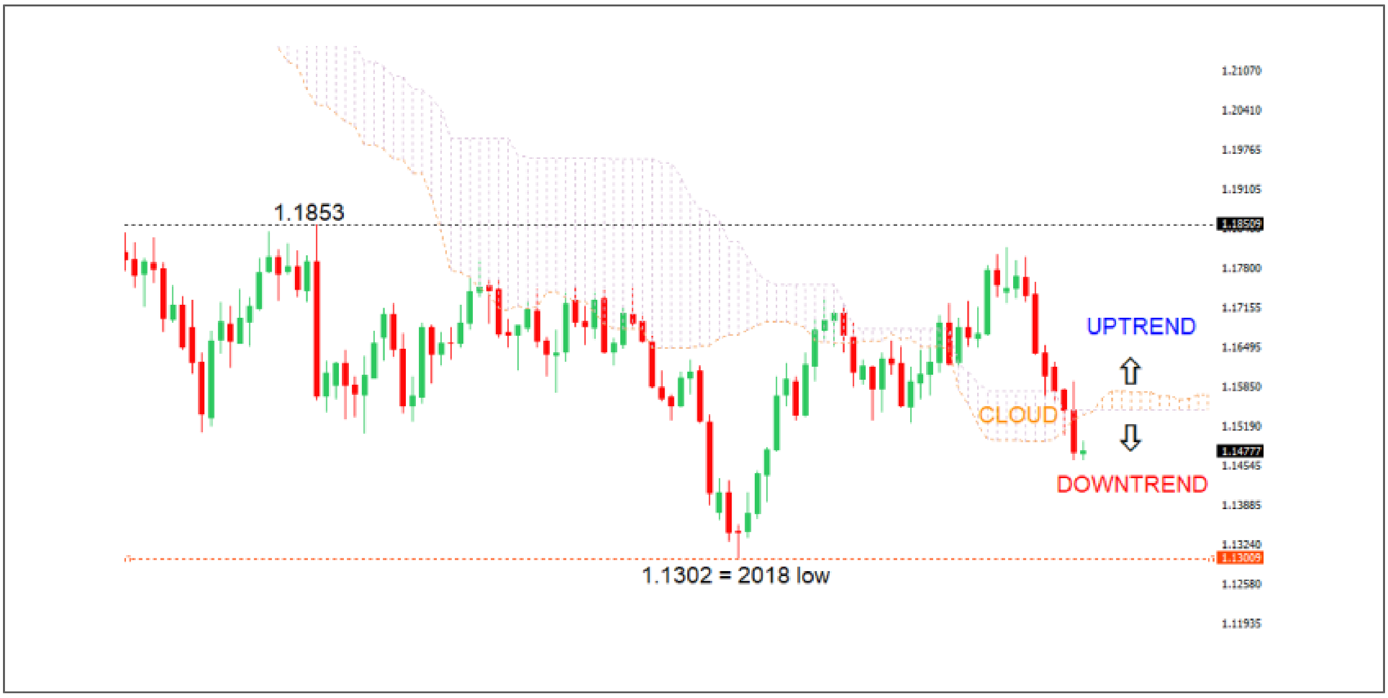


Suggested reading

- The Dow is Hot, The Rest of the Market is Not, R. Burgess, **Bloomberg** (October 2, 2018)
- Brazil Election Pits Far-Right Against Far-Left, J. BLeahy, **Financial Times** (October 3, 2018)

EURUSD – technical overview

The Euro has struggled since breaking back above the Ichimoku cloud, with the latest round of setbacks compromising the possibility for the start to a meaningful uptrend. The market will need to now establish back above 1.1600 in order to get the bullish momentum going again. Otherwise, there is risk we see a resumption of the downtrend and acceleration towards a retest of the 2018 low.



- **R2 1.1652** – 28Sep high – Strong
- **R1 1.1594** – 3Oct high – Medium
- **S1 1.1464** – 4Oct low – Medium
- **S2 1.1395** – 20Aug low – Strong

EURUSD – fundamental overview

The Euro has come under additional pressure this week, with the latest round of setbacks driven off rising US treasury yields that have opened up a bigger advantage for the Buck on the rate differential front. Ongoing solid US economic data and a wave of hawkish comments have been inspiring the move, particularly after Wednesday's hawkish speak from the Fed Chair. Still, looking out, adjustments in the Fed's projections have not reflected a major acceleration in the rate hike process and this coupled with soft Dollar implications from US trade policy, could once again invite demand into the dip. Absence of first tier data in Europe, leaves only US initial jobless claims and factory orders as the notable standouts.

EURUSD – Technical charts in detail

Watch now

GBPUSD – technical overview

The correction off the 2018 low has transformed into an uptrend following the recent break back above the daily Ichimoku cloud. It's the first time the market has traded above the cloud since it was trading around 1.4000 back in April, and encourages the possibility for a more meaningful recovery ahead. Any setbacks should now hold up ahead of the 1.2800 area. Back above 1.3300 encourages the outlook and should accelerate gains.

- **R2 1.3117** – 1Oct high – Strong
- **R1 1.3049** – 2Oct high – Medium
- **S1 1.2942** – 2Oct low – Medium
- **S2 1.2898** – 10Sep low – Strong

GBPUSD – fundamental overview

When considering ongoing uncertainty associated with the fate of Brexit, the Pound has actually held up rather well. This latest wave of weakness has come from the US Dollar side and has been broad based, with currencies pulling back, primarily in the aftermath of hawkish Fed Powell speak that has opened a surge in US treasury yields. Still, looking out, adjustments in the Fed's projections have not reflected a major acceleration in the rate hike process and this coupled with soft Dollar implications from US trade policy, could once again invite demand into the dip. Absence of first tier data in Europe, leaves only US initial jobless claims and factory orders as the notable standouts.

GBPUSD – Technical charts in detail

Watch now

USDJPY – technical overview

The market has been well bid in recent weeks, though rallies have also been very well capped, with the medium-term outlook still favouring lower tops and lower lows. Look for a daily close back below 113.53 to strengthen this outlook and accelerate declines. Only a close back above a previous lower top from the Fall of 2017 at 114.74 would compromise the bearish structure.

- **R2 114.74** – Nov 2017 high – Very Strong
- **R1 114.56** – 4Oct high – Medium
- **S1 113.53** – 3Oct low – Medium
- **S2 112.57** – 27Sep low – Strong

USDJPY – fundamental overview

Overall, despite the latest run higher, the major pair looks vulnerable given the state of record high US equities and risk we could see a capitulation in the correlated asset class. We're now living in a world where central bank and government stimulus is no longer there in the way it had been for a decade post 2008 crisis, which increases the probability for Yen demand, as negative shocks to the global economy surface, particularly in light of tension surrounding fallout from US protectionism. Looking at today's calendar, US initial jobless claims and factory orders are some of the notable standouts.

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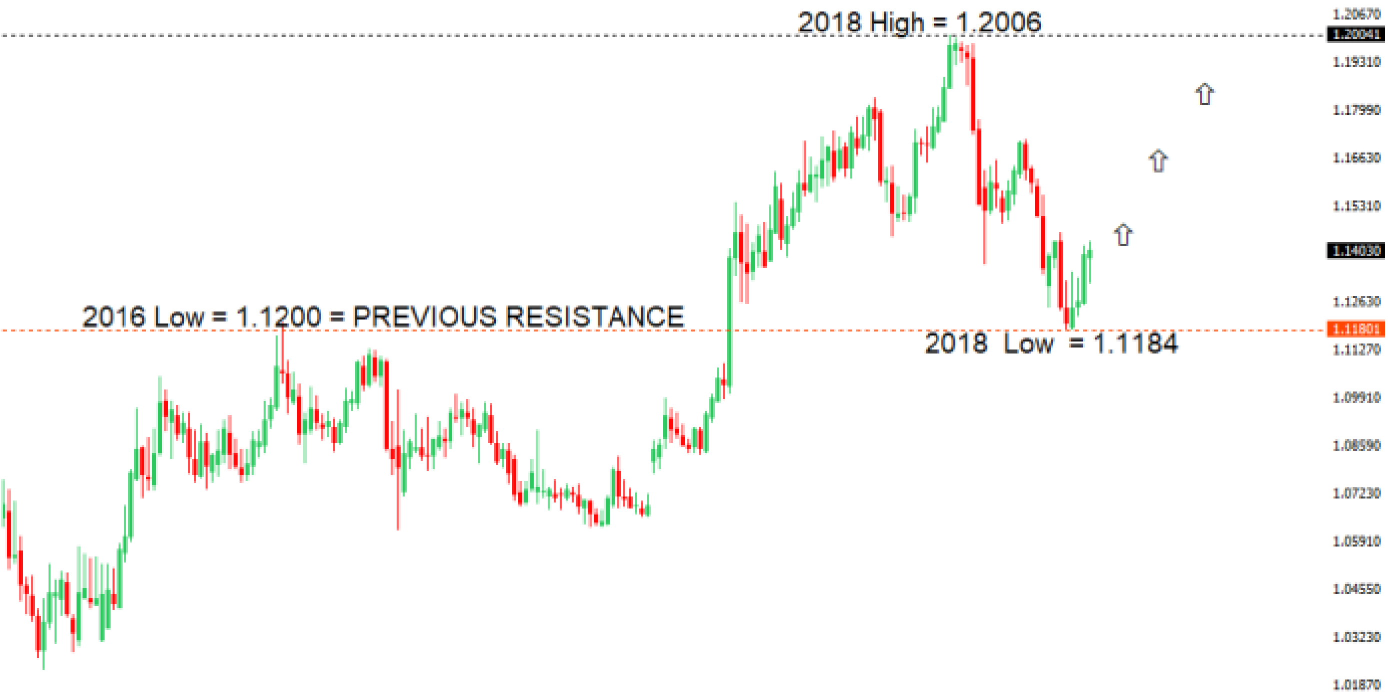
EURCHF – technical overview

Signs of recovery after the market had sunk to a fresh 2018 low in August. If the market can establish back above 1.1500 it will encourage the bullish prospect and set the stage for a rally back towards the yearly high, all the way up just over 1.2000. However, inability to establish above 1.1500, could invite another move to the downside.



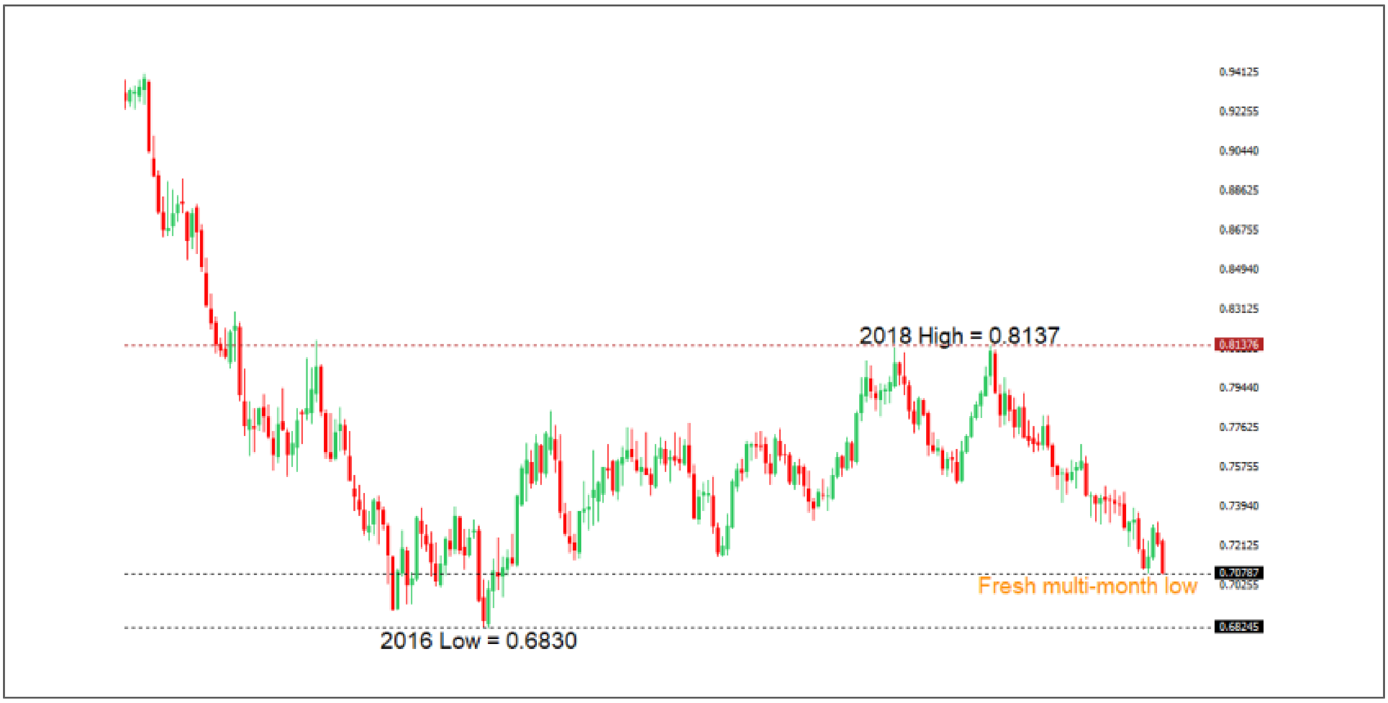
- **R2 1.1455**– 28Aug high – Strong
- **R1 1.1430** – 1Oct high – Medium
- **S1 1.1313** – 27Sep low– Medium
- **S2 1.1224**– 18Sep low – Strong

EURCHF – fundamental overview

The SNB remains uncomfortable with Franc appreciation and continues to remind the market it will need to be careful about any attempts at trying to force an appreciation in the currency. But the SNB will also need to be careful right now, as its strategy to weaken the Franc is facing headwinds from a less certain global outlook. Any signs of sustained risk liquidation between now and year end, will likely invite a very large wave of demand for the Franc that will put the SNB in the more challenging position of needing to back up its talk with action, that ultimately, may not prove to be as effective as it once was given where we're at in the monetary policy cycle.

AUDUSD – technical overview

The downtrend has extended this week, with Aussie extending the 2018 decline, sinking to its lowest levels since February 2016. Technical studies are starting to look a little stretched on a medium term basis, though it would take a break back above the September high at 0.7316 to alleviate immediate downside pressure and encourage the possibility for any possible shift in the trend.



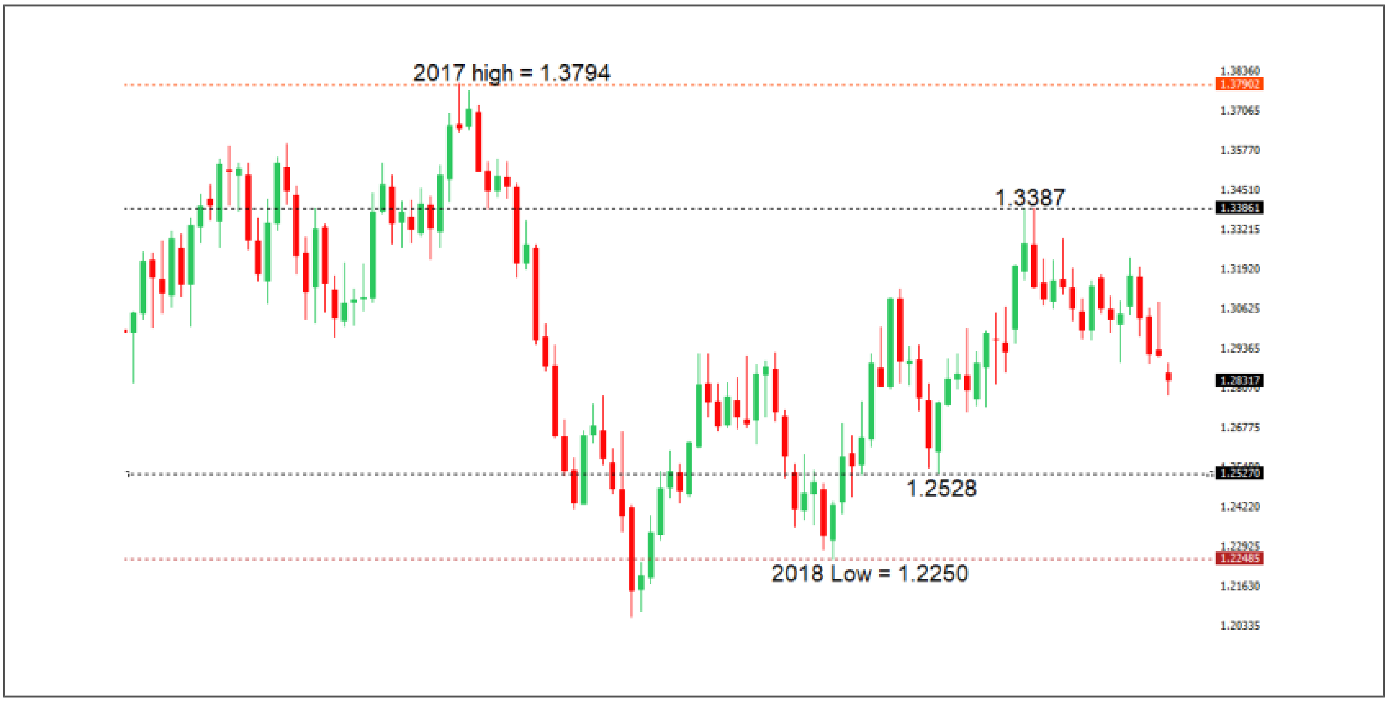
- **R2 0.7198** – 3Oct high – Strong
- **R1 0.7142**– 17Sep low – Medium
- **S1 0.7076** – 4Oct/**2018 low** – Medium
- **S2 0.7000** – Psychological – Strong

AUDUSD – fundamental overview

Thursday's solid round of Aussie data, as reflected through trade and performance of services, have not been enough to keep the Australian Dollar from dropping to its lowest levels since February 2016. The combination of solid US data, hawkish Fed speak, surging US treasury yields and deterioration in risk sentiment, has been a nasty combination for the commodity currency, resulting in the latest slide. Looking at today's calendar, US initial jobless claims and factory orders are some of the notable standouts.

USDCAD – technical overview

The market has been under pressure since topping out in June, which could still invite a deeper decline before the next upside extension gets underway. Still, look for any weakness to be well supported ahead of 1.2500 with only a break back below this psychological barrier to negate the bigger picture constructive outlook.



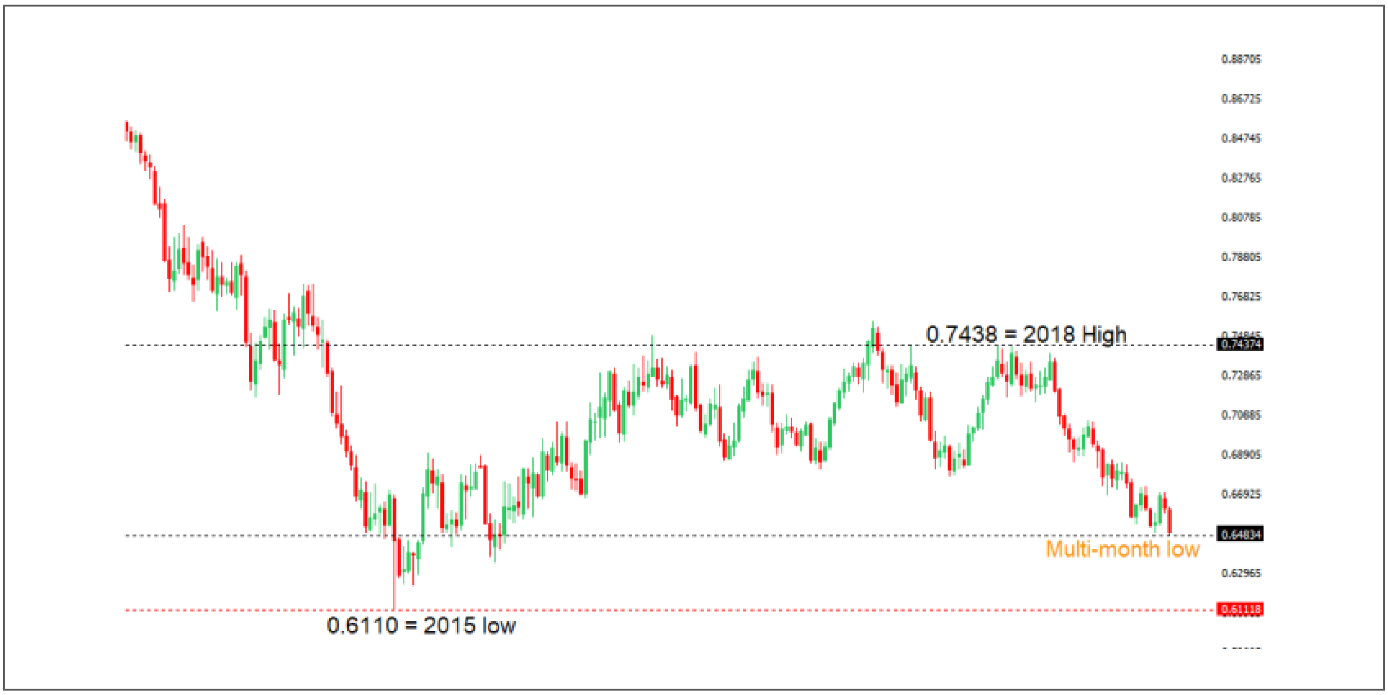
- **R2 1.3000** – Psychological – Medium
- **R1 1.2900** – Figure – Medium
- **S1 1.2783**– 1Oct low – Strong
- **S2 1.2730** – 11May low – Strong

USDCAD – fundamental overview

The Canadian Dollar had been enjoying a round of relative outperformance this week, on the back of the news of the Canada deal with the US on trade and surging OIL prices to the highest levels since November 2014. However, we've since seen the Loonie under pressure from the broad based US Dollar demand that has come from hawkish Fed speak, positive US data and surging US yields. Looking at today's calendar, we get Canada Ivey PMIs, along with data in the US that includes initial jobless claims and factory orders.

NZDUSD – technical overview

Kiwi setbacks have extended to another 2018 low, with the market also back to its lowest levels since January 2016. This leaves the door open for declines down towards massive support just ahead of 0.6100, in the form of the 2015 low. At the same time, technical studies are looking stretched on a medium term basis, which could warn of a meaningful low ahead of such a retest. Still, at this point, it would take a break back above the September high at 0.6700 to take the immediate pressure off the downside.



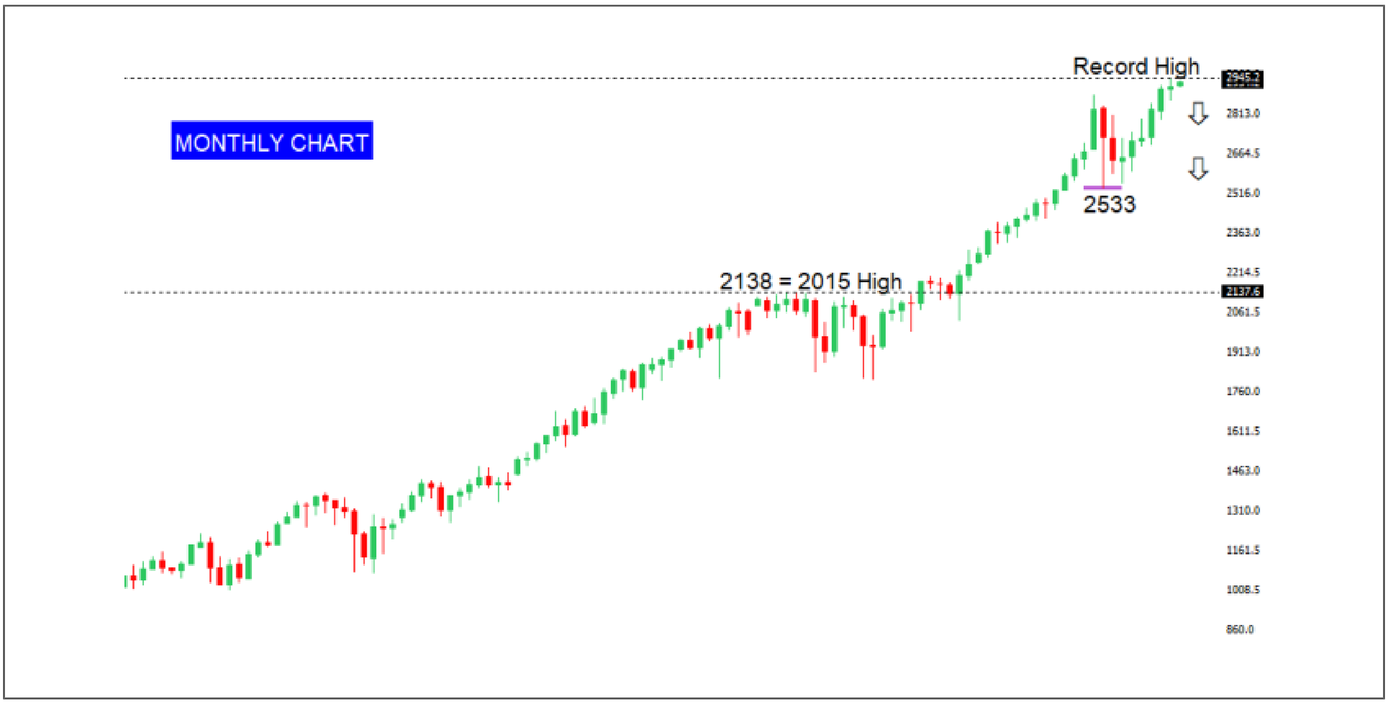
- **R2 0.6594** – 3Oct high – Strong
- **R1 0.6539** – 17Sep low – Medium
- **S1 0.6484** – 4Oct/**2018 low** – Medium
- **S2 0.6430** – Nov 2013 low – Strong

NZDUSD – fundamental overview

While most of the risk associated with the direction in the New Zealand Dollar is predicated on external factors extending to broader global macro themes, there has been additional downside pressure the currency has not been able to ignore this week, accounting for relative underperformance. Local economic data has not been encouraging, with the market getting another let down from the GDT auction, followed by a moderation in house prices and drop in job adverts. The also follows the business confidence drag earlier this week that highlighted distressed about weaker earnings in the third quarter. Looking at today’s calendar, US initial jobless claims and factory orders are some of the notable standouts.

US SPX 500 – technical overview

A market that has been extended on the monthly chart is at risk for a major correction, with the possibility for a massive topping formation. Any rallies should now continue to be very well capped ahead of 3000, in favour of renewed weakness back below the 2530 area yearly low (double top neckline) and towards a retest of strong longer-term resistance turned support in the form of the 2015 high at 2140. Only a weekly close above 3000 would negate the outlook.



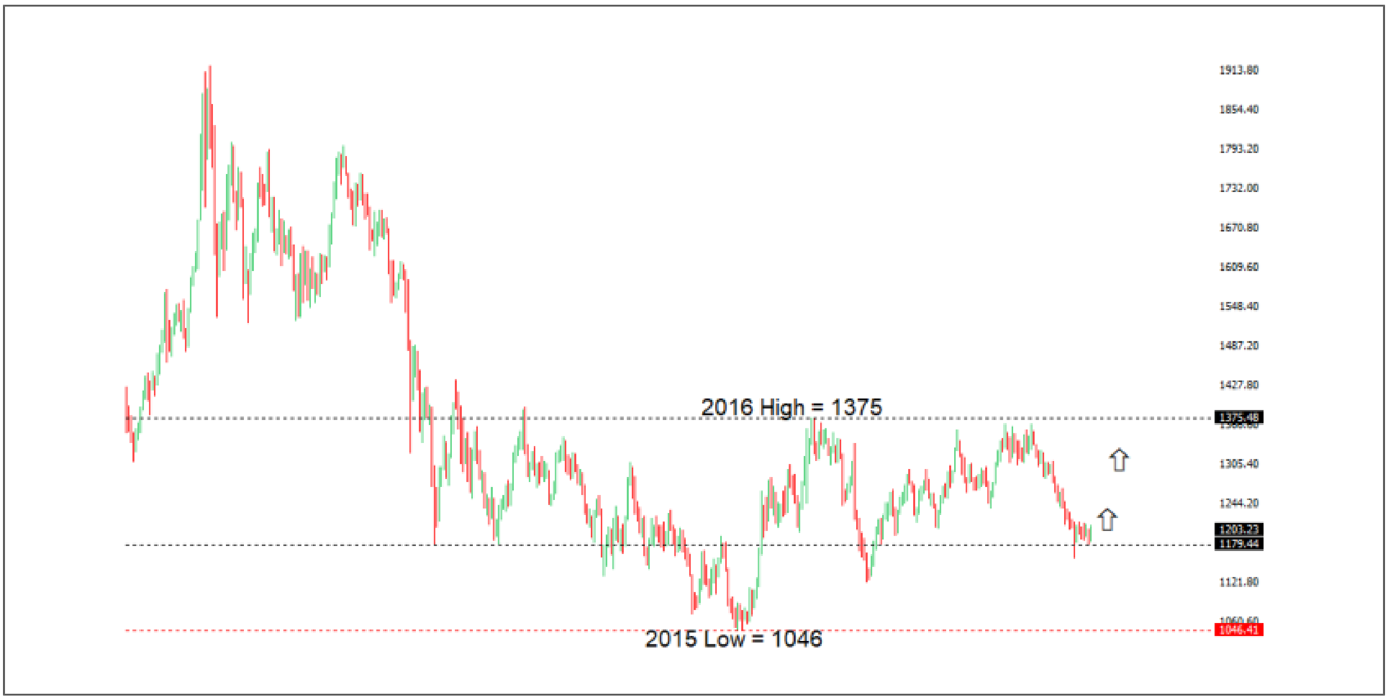
- **R2 2950** – Psychological – Strong
- **R1 2943** – 21Sep/**Record** – Medium
- **S1 2901** – 19Sep low – Medium
- **S2 2865** – 7Sep low – Strong

US SPX 500 – fundamental overview

Stocks continue to track just off fresh record highs from September, though investor immunity to downside risk is not as strong these days. The combination of Fed policy normalisation, US protectionism, ongoing White House drama and geopolitical tension are all warning of capitulation ahead, despite this latest run. The Fed has also finally acknowledged inflation no longer running below target in 2018, something that could very well result in less attractive equity market valuations given the implication on rates. We recommend keeping a much closer eye on the equities to ten year yield comparative going forward, as this could be something that inspires a more aggressive decline in this second half of 2018.

GOLD (SPOT) – technical overview

Despite a recent run of of declines, the overall outlook remains constructive, with the market in the process of carving out a longer term base off the 2015 low. Look for any additional weakness to be well supported above 1150 on a daily close basis, in favour of the next major upside extension back towards critical resistance in the form of the 2016 high at 1375. Key resistance comes in at 1236, with a push back above to strengthen the outlook.



- **R2 1236** – 26Jul high – Strong
- **R1 1215** – 28Aug high – Strong
- **S1 1181** – 28Sep low – Medium
- **S2 1160** – 16Aug/**2018 low** – Strong

GOLD (SPOT) – fundamental overview

The yellow metal continues to be well supported on dips with solid demand from medium and longer-term accounts. These players are more concerned about exhausted monetary policy, extended global equities, political uncertainty, systemic risk and trade war threats. All of this should keep the commodity well supported, with many market participants also fleeing to the hard asset as the grand dichotomy of record high equities and record low yields comes to an unnerving climax.

BTCUSD – technical overview

The downtrend remains firmly intact, with the next lower top now sought out around $7,000 ahead of a retest and break below the current yearly low. Only a push back above $8,500 would ultimately negate and force a bullish structural shift, while below the yearly low could open a more intensified decline towards the September 2017 low around $2,975.

- **R2 7,405** – 4Sep high – Strong
- **R1 6,985** – 6Sep high – Medium
- **S1 6,110**– 8Sep low –Medium
- **S2 5,860** – 14Aug low – Strong

BTCUSD – fundamental overview

Overall, Bitcoin is doing its best to try and hold up above $6,000 in 2018 after undergoing a massive decline off the record high from December 2017. At the moment, the market has found some stability around the $6,000 barrier, with buyers stepping in on the view that the regulatory challenges will eventually work themselves out, leaving a very bullish picture for a technology with tremendous potential and increased adoption. The latest positive headlines are more cultural than anything else, but important nonetheless, with Bitcoin added to the Merriam-Webster Scrabble dictionary. Still there has been concern in the shorter-term, as hopes for an ETF in 2018 are soured on account of the regulatory hangup.

BTCUSD – Technical charts in detail

Watch now

ETHUSD – technical overview

The market remains under pressure in 2018, extending its run of intense declines to fresh 2018 lows. The next level of major support comes in around $160, which goes back to the low from July 2017. Daily studies are however oversold, which could warn of a bigger corrective bounce before the next downside extension and bearish continuation. It would take a break back above $321 to officially take the pressure off the downside.

- **R2 321** – 18Aug high – Strong
- **R1 255** – 22Sep high – Medium
- **S1 167** – 12Sep/**2018 low** – Medium
- **S2 158** – July 2017 low – Strong

ETHUSD – fundamental overview

We've been seeing quite a bit of weakness in the price of Ether in 2018 and there is still legitimate risk for deeper setbacks, given technical hurdles within the Ethereum protocol, ongoing regulatory challenges and a global macro backdrop exposing risk correlated projects on the Ethereum blockchain. Monetary policy normalisations around the globe and an anticipated reduction in global risk appetite are placing a tremendous strain on ERC20 projects that have yet to even produce proper use cases and proof of concept.